

OVERLOOKED OPPORTUNITIES WITH TAX-LOSS HARVESTING



Understanding Price vs. Total Return

Tax-loss harvesting is the act of selling an investment at a loss and using that loss to offset gains and/or ordinary income.¹ Gains and losses are based on an investment's *price* return, not its *total* return. Client statements and funds usually report total return performance, potentially making it difficult to find tax-loss harvest opportunities.

Did you know?

Equities

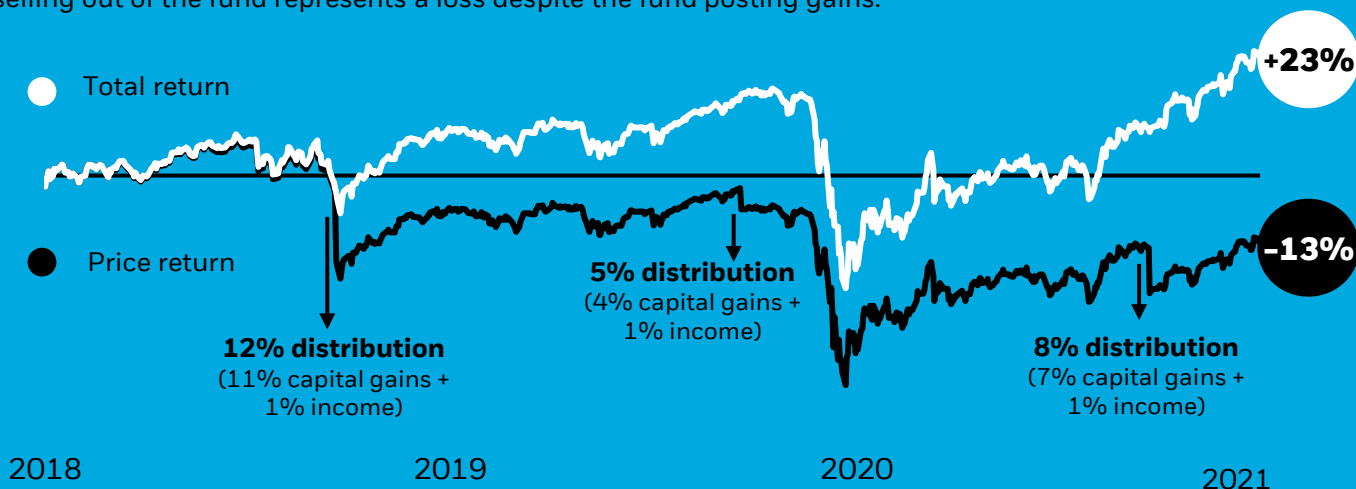
Although **99%** of alpha-seeking U.S. large cap equity mutual funds have a positive three-year total return, **31%** have a negative price return.²

Fixed income

100% of mutual funds in the intermediate core bond category have a negative price return over the one- and three- year holding periods.³

Equities: Tax loss harvesting may be possible even when you made money

In this hypothetical example, the investor has paid taxes on the distributions. At the end of the 3-year period, selling out of the fund represents a loss despite the fund posting gains.



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Price return

Measures change from purchase price to sale price; Could reveal a tax-loss harvesting opportunity as negative values indicate a capital loss.



Capital gain and income distributions

Security/ fund pays out capital gains & income distributions, these distributions reduce the price by the amount of the distribution.

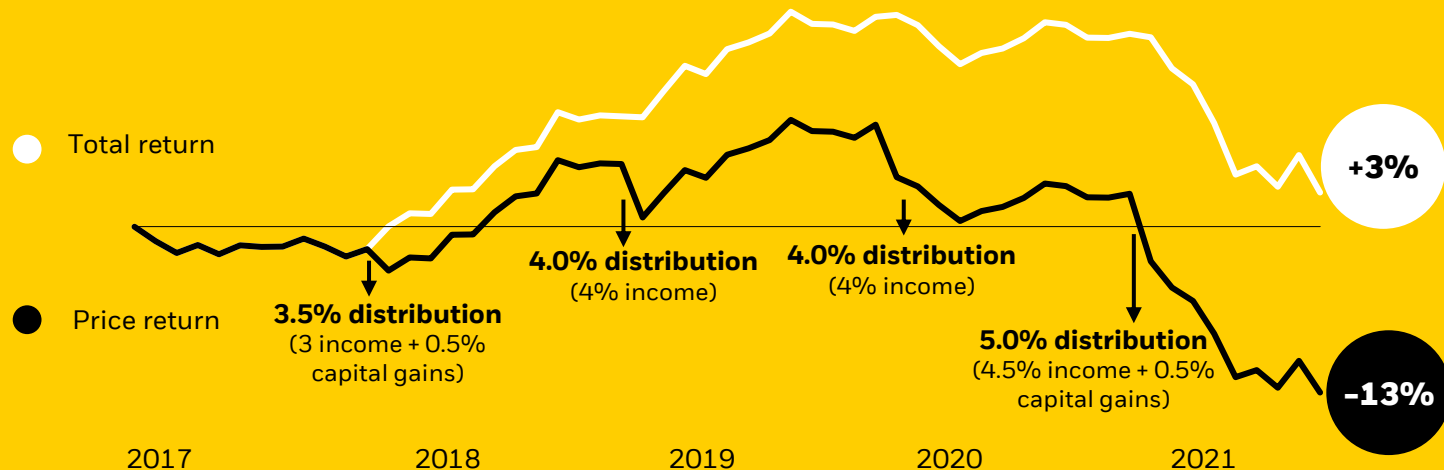


Total return

This is the return the investor experiences in total (price return + distributions). Note this can be positive even when price return is negative. (See graph above).

BlackRock does not provide tax advice. Consult a tax professional regarding any of the information contained in this document. **1** Harvested losses can be used dollar for dollar to offset capital gains. Investors can also offset up to \$3,000 per year of regular income with realized losses. **2** Source: Morningstar Direct. As of July 30, 2022. U.S. Large Cap equity mutual funds are based on Morningstar categories of Large Cap Value, Large Cap Growth, and Large Cap Blend. **3** Source: Morningstar Direct. As of July 30, 2022. Based on Morningstar's intermediate core bond category. Past performance is not indicative of future results.

Fixed Income: Income distributions give rise to tax loss harvesting opportunities

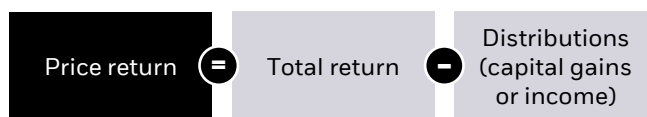


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Insight: why bonds for tax-loss harvesting?

Since bond funds tend to distribute the bulk of their return in income distributions, their price return is usually well below their total return.



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